

Message Text

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S E C R E T QUITO 4958

EXDIS

E.O. 11652: XGDS-2
TAGS: ENRG, PFOR, EC
SUBJECT: PROPOSED DISCUSSION BETWEEN AMB AND ADMIRAL POVEDA
REGARDING TEXACO-GULF SITUATION

REFS: (A) QUITO 4823; (B) QUITO 4629

1. SUMMARY: IN VIEW OF THE RAPIDLY DETERIORATING SITUATION BETWEEN TEXACO-GULF AND THE GOE, AND ITS IMPLICATIONS FOR OUR BILATERAL RELATIONS, I SUGGEST THAT I MEET WITH THE PRESIDENT, ADMIRAL POVEDA, TO DISCUSS THE SPECIFIC PROBLEMS CONFRONTING TEXACO-GULF AND SHARE MY CONCERN THEATS PRESENT HEAD-ON COURSE COULD ADVERSELY AFFECT RELATIONS BETWEEN THE USG AND ECUADOR. END SUMMARY.

2. I REQUEST DEPARTMENT CONCURRENCE IN MEETING WITH ADMIRAL POVEDA TO DISCUSS THE TEXACO-GULF PROBLEM AND ITS IMPLICATIONS FOR OUR BILATERAL RELATIONS. THIS APPROACH WOULD BE BASED ON THE ASSUMPTION THAT AS HE TOLD ME A MONTH AGO POVEDA IS STILL OPPOSED TO NATIONALIZATION OF THE PETROLEUM COMPANIES AND CONTINUES TO WANT A MUTUALLY SATISFACTORY RELATIONSHIP BETWEEN THE GOE AND TEXACO-GULF. I FRANKLY AM UNCERTAIN WHETHER THE ADMIRAL HAS THE POWER TO FORCE THE MINISTER OF NATURAL RESOURCES TO TAKE THE NECESSARY MEASURES TO ALLEVIATE WHAT THE COMPANIES CONSIDER THEIR UNTENABLE POSITION, BUT HE IS THE ONLY MEMBER OF THE GOVERNMENT WHO MIGHT BE ABLE TO GET VARGAS IN LINE. THERE IS ALSO THE POSSIBILITY

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THAT POVEDA IS NOT FULLY INFORMED ABOUT TEXACO-GULF'S CRITICAL

PROBLEMS RE DECREE 285 AND CEPE'S OVERLIFTINGS OF DOMESTIC CONSUMPTION CRUDE. IN ANY CASE, I FEEL WE HAVE NOTHING TO LOSE BY MAKING SUCH AN APPROACH.

3. SPECIFICALLY, I WISH TO SHARE MY CONCERN WITH POVEDA THAT THE COMPANIES WILL BE FORCED TO TAKE SOME ACTION THAT ULTIMATELY WILL LEAD TO NATIONALIZATION IF THERE IS NOT SOME IMPROVEMENT REGARDING THE COMPANIES' FINANCIAL BURDENS. I WOULD UNDERScore TO HIM THAT NATIONALIZATION ARISING OUT OF THE CURRENT FRICTIONS BETWEEN THE GOE AND THE COMPANIES WOULD VERY LIKELY IMPACT ADVERSELY ON OUR BILATERAL RELATIONS, TO THE DETRIMENT OF BOTH COUNTRIES.

4. REGARDING TEXACO-GULF'S SPECIFIC AND IMMEDIATE COMPLAINTS AGAINST THE MINISTRY AND CEPE, I THINK IT IMPORTANT TO EMPHASIZE TO POVEDA THE APPARENT RELUCTANCE BY THE MINISTRY TO DISCUSS IN EARNEST EVEN A ONE-YEAR INVESTMENT PROPOSAL, MUCH LESS THE LONG-RANGE INVESTMENT PLAN PRESENTED TWO MONTHS AGO. THIS DELAY SERIOUSLY UNDERCUTS THE AVOWED INTEREST OF THE GOVERNMENT (AND MINISTER OF NATUNKW RESOURCES VARGAS) IN PROMOTING PETROLEUM EXPLORATION, AND SERIOUSLY LIMITS THE POSSIBILITIES OF ATTRACTING OTHER QUALIFIED COMPANIES.

5. DECREE 285 AND CEPE'S OVERLIFTINGS OF DOMESTIC CONSUMPTION CRUDE ARE TEXACO-GULF'S MOST PRESSING PROBLEMS, AND I FEEL IT IS IMPORTANT TO MAKE POVEDA AWARE OF THEIR IMPLICATIONS IF HE IS NOT ALREADY AWARE. I WOULD MENTION TO POVEDA THAT TEXACO-GULF CONSIDERS THE MINISTER'S RETROACTIVE APPLICATION OF DECREE 285 TO BE CLEARLY IN VIOLATION OF THE CONTRACT BETWEEN TEXACO-GULF AND THE GOE. CEPE'S OVERLIFTINGS OF DOMESTIC CONSUMPTION CRUDE HAVE DOUBLED IN THE PAST FEW MONTHS, AND NO ACCOUNTING OF CONSUMPTION HAS BEEN FORTHVOMING FROM CEPE DESPITE TEXACO-GULF'S REPEATED REQUESTS. THE COMPANIES CONSIDER BOTH THESE FACTORS TO RENDER THEIR SITUATION HERE UNTENABLE, BUT HAVE HAD NO SUCCESS IN DISCUSSIONS WITH CEPE OR THE MINISTRY.

6. I DO NOT PLAN TO MENTION GULF'S SUSPENSION OF DEPOSITS. (SHOULD HE RAISE THIS TOPIC, I WOULD DEPICT THE SUSPENSION
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AS AN UNDERSTANDABLE ACT IN THE FACE OF THE GOE'S FAILURE TO HEED THE COMPANIES' JUST GRIEVANCES.)

7. MY MEETING WITH POVEDA WOULD BE OFF THE RECORD AS FAR AS THE REST OF THE GOE IS CONCERNED. IT WOULD BE ARRANGED THROUGH THE CONFIDENTIAL CHANNEL WHICH HE ESTABLISHED WITH MY PREDECESSOR AND WHICH I HAVE ALREADY USED ON ONE PREVIOUS OCCASION. (RECIPIENT AGENCIES, PLEASE PROTECT THIS CHANNEL TO

POVEDA.) POVEDA ASKED AMBASSADOR BREWSTER TO KEEP HIM
INFORMED OF ANY IMPENDING CRISES INVOLVING TEXACO-GULF SO I
AM SURE HE WOULD CONSIDER MY RAISING THIS MATTER AS A FRIENDLY
GESTURE.

8. PLEASE ADVISE.
BLOOMFIELD

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